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A Conceptual Framework for Ethical Decision Making in Project Procurement

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Abstract:

There is a lack of research which identifies the role of the public-sector client in relation to ethical practice in plan procurement. This paper discusses a conceptual framework for ethical decision making in project procurement, focusing on public sector clients within the Malaysian construction industry. A framework is proposed to ensure that effective ethical decision making strategies are deployed to ensure that plan procurement is carried out with a transparent process so that the public sector clients are able to adopt. The conceptual framework adopts various factors that contribute to ethical decision making at the early stage of procurement and consists of the procurement system, individual factors, project characteristics, and organizational culture as the internal factors and professional code of conduct and government policies as the external factors. This framework rationalizes the relationships between systems, psychology and organizational theory to form an innovative understanding of making ethical decisions in plan procurement. It is expected that this proposed framework will be useful as a foundation for identifying the factors that contribute to ethical decision making focusing on the planning stage of procurement process.

Keywords: procurement, plan procurement, ethics, ethical issues, governance, transparency, accountability, decision making

1 Introduction

Managing public sector projects in Malaysia is a unique challenge. This is because of the ethical issues involved during the project procurement process which may ultimately impact the quality, cost and time of the project itself. Ethical issues include conflict of interest, bid

shopping, collusive tendering, bid cutting, corruption and payment game.

Therefore, it is critical to govern the project procurement processes, especially plan procurement, to ensure the accountability and transparency of the decision making process and ensure that potential ethical issues are avoided. Plan Procurements (formerly known as

procurement planning and plan purchases and acquisition) is the stage to decide which goods and services will be done internally and which goods and services will be carried out by suppliers and contractors (PMBOK, 2004).

Project Procurement is one of the areas of project management that has ethical issues. As organizations become more sophisticated and disciplined in managing projects, procurement is becoming recognized as a key and integral part of the project plans (Guth, 2009).

Governments around the world invest enormous amounts of money in project procurement especially in the construction industry (Government Extension to PMBOK, 2006). Of all the government activities, procurement is one of the most vulnerable to fraud, corruption and ethical issues (OECD, 2009). A number of contractors have failed to perform and complete the projects on stipulated time. This has become one of the main concerns of the public sector as it affected the quality of the projects. Therefore, it is vital to investigate the ethical issues in project procurement in public sectors. This paper is divided into three sections; literature review on ethical decision making the second session will discussed on the factors contributing to unethical behavior in project procurement, and the next session that will conclude this paper including the preliminary conceptual framework for this paper.

2 Ethical Decision Making

Ethics has been debated widely by different fields including project management as practitioners and researchers have realised the importance of understanding and implementing ethics in the working place to sustain trust with the client, customer and stakeholders. Although an effective assessment of the

overall project success outcomes are seen as fundamental, but the effective approach has not yet been discovered.

Ethical decision making might be easy if we could reduce it to what is right and wrong, black and white (Chonko, 1995). The interest in ethical decision making has heightened as a result from many ethical issues that have occurred in organizations and company around the world but unfortunately it is not as easy as it sounds. There are many factors that affect the way we make decisions. To improve ethical decision making, one must first understand how individuals make ethical decisions in an organizational environment.

2.1 Ethical Behavior in Project Procurement

Public sector projects have many external influences especially political and social (the citizens). These strong external forces might persuade the ethical behaviour of the people involved in project procurement that will lead to ethical issues such as corruption, bribes, conflict of interest and hidden agendas. This ethical issue is further complicated by the fact that most projects are increasingly globalized.

It also has been argued that accountability of public officials is critical in deterring corrupt practices and it creates an enabling environment for vibrant private sector activity (Kabaj, 2003 as cited in Basheka, 2008). For example, corruption occurring from a procurement system weak on aspects of 'check and balance' will cause a major drain on the national budget and can result in a huge loss of public funds.

The problems of accountability arise when governments ignore or behave unethically in conducting public money and affairs. This also includes the disregard of the administrative systems, tasks that are complex until it is difficult

to identify who is responsible for what, and activities are underfunded. When the problems of accountability occur, there are many potential of unethical behavior to occur that will influence the ethical decision making in plan procurement.

One of the reasons why detailed procurement procedures are required for a project is the requirement to identify acceptable relations between owner and contractor. When there are clear procedures and guidelines, ethical issues can often be avoided. This refers back to the principal-agent theory that focuses on the relationship between the principal (owner/client) and the agent (contractor) that stresses on the importance of building good rapport and maintain the trust between the client and the contractor as the agent.

According to Guth (2009), linking to the project procurement processes, there are a few of ethical issues that occur here; issues of influence, perceived impropriety, conflict of interest, confidential and proprietary information, reciprocity and applicable laws, regulations and trade Agreements.

A conflict of interest exists when an individual has the opportunity to take a decision which advances his or her own interest rather than that of the organization (Walker, *et al.*, 2008). However, bribes, gifts, personal payments have different meaning to different countries. In western countries, all of these are considered conflict of interest. On the other hand, in China, there is a term called “guanxi” that are used to establish rapport and trust with business partners that are different with bribery. “Guanxi” is part of the culture in China to build relationship with people to maintain good liaison. Honesty and fairness is needed in business ethics and so with project procurement.

3 Factors contributing to Ethical Decision Making in Project Procurement

As emphasized in the previous discussion, subjective measurement on ethical issues and unethical behavior has been used in the project procurement to evaluate the ethical decision making. To understand the results of this research, the factors that contribute to ethical decision making are discussed in the next part.

3.1 Internal Factors

Currently, most of the research about ethical behaviors and ethical issues in project procurement are focusing on the contractors’ perspective. However, it is also important to study from the perspective of the clients as they are the regulatory and policy making body party who are involved in the ethical decision making.

As mentioned earlier, the project procurement system is very much concerned with the organized method or procedure of obtaining goods and services to perform a project. There are three main procurement systems that are commonly used in Malaysia; traditional method, integrated procurement method and management oriented procurement method. Each of these methods has influence and different opportunities for risk to occur (Walker *et. al.*, 2008; Rashid *et. al.*, 2006). This is because where complex procurement decisions are made; there is justifiably an acute focus on the potential risk. However, this is not fully discovered in the previous research. Therefore it is needed to understand the procurement systems implemented for that particular project.

Another factor that contributes to this framework is project characteristics. Project characteristics not only influence the choice of procurement method (Love & Skitmore, 1998; Alhazmi & McCaffer, 2000) but also the ethical decision making as there are risks involved in it (Walter et. al., 2008). Therefore it is important to include project characteristics as part of this framework to ensure that ethical issues could be overcome. Alhazmi and McCaffer (2000) suggested the following as project criteria; project type, project cost, time constraints, degree of flexibility, degree of complexity, payment method, design and construction integration and project funding method.

The people who are involved in the plan procurement decision making plays different roles that will influence the decisions that they are making (Bomer, 1987). These people that have different characteristics, norms, morals and values that will have an impact on the plan procurement. In addition to accountability, moral intensity and the basic moral rules and norms of society, it is important to consider the individual factors (Beu, 2003). It is also important to determine why an individual act as they do when confronted with ethical issues.

Organizational culture is defined as the set of values, beliefs and behavioural norms that guide how members of the organization get work done (Yazici, 2009; Miller, 2000). Liu and Fellows (1996) have explored the relationship between the procurement process and mechanisms and the mindset, values, beliefs and behaviours of the people involved. For an organization as a whole to be ethical, it must have an organizational culture that values ethical decision making (Bowen, 2004).

According to Bowen (2004), all of these dimensions had an effect on ethical decision making through factors such as

the level of autonomy for communication in issue decision making, the relationship of the top communicator to the dominant coalition and how the moral analyses of individuals were communicated about in issues management meetings.

3.2 External Factors

There are so many factors that can influence the ethical decision making such as individual attributes, social environment, and professional code of ethics, organizational context and job context (McDevitt, 2007; Forte, 2004). However, for the purpose of this research only two external factors are identified. These two factors are considered as the one that has most influenced on ethical decision making (McDewitt, 2007; Patterson, 2001; McDevitt & Van Hise, 2002; Fan, 2003). Professional ethics has an effect on the quality of the projects and it comes into questions whenever there are problems in projects implementation in Malaysia (Rahman *et. al.*, 2007). It was discovered that the existence of a code of ethics was significantly associated with lower levels of unethical behaviour and could affect the ethical decision making. At the same time, policies, laws, acts and regulations are the guidelines used in making decisions for an organization. It is believed that legal requirements and various forms of guidelines are the most direct sources of information that are relied upon (Fan 2003). Therefore, it is important to ensure that these guidelines are followed to ensure that the decisions made are ethical.

3.3 Clients' Requirements

In order to ensure that ethical issues can be overcome in plan procurement, it is vital for us to understand the clients' requirements. Each project has its own

characteristics and requirements. Therefore, we need to match clients' needs with the most appropriate procurement system so that any risks including ethical issues can be avoided (Ratnasabapathy, *et. al.*; Love *et. al.* 1998).

However, for the purpose of this research, only the following criteria will be used as the clients' requirements criteria; project scope, quality, responsibility, price and risk allocation. This is because these factors are the most important elements that need to be considered to avoid from any ethical issues arises in plan procurement stage. According to Sheath *et al.*(1994) and Chan (2001), clients' requirements will ultimately be influenced by the context in which they operate. A client's characteristics govern their strategy in mobilising the project team and their attitude in dealing with risks and ethical issues.

3.4 Preliminary Conceptual Framework

Figure 1 contains the proposed conceptual framework developed from the literature review. From this conceptual framework we can have a better understanding of the tentative phenomena that this research is trying to investigate as illustrated in this figure. The conceptual framework is appropriate to identify clearly the elements that contribute to the ethical decision making in plan procurement. The development of this framework is important necessary to study the ethical behavior from the point of view of the client which is not really studied by the scholars.

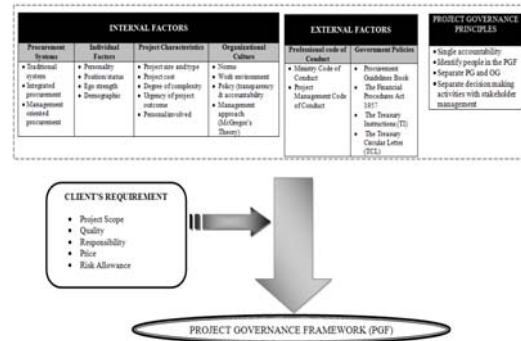


Figure 1: Proposed Conceptual Framework for ethical decision making in Project Procurement

4 Conclusion

The research aim to identify factors that contribute to ethical decision making in project procurement focusing on the pre-stage or the planning stage of project procurement including other factors necessary to overcome the issue discussed earlier. Quantitative methods will be used to address the ethical issues in plan procurement by identifying the ethical behavior that influence ethical decision making and the factors that influence the decision makers. Therefore, pilot study has been conducted to get feedback regarding the ethical behavior in project procurement and the factors that cause this ethical behavior to occur. Delphi Technique is the most suitable way of understanding and examining the attributes to ethical issues. This method is used as it is suitable when investigating decision making strategies

The pre-stage of project procurement process is an important phase of project procurement to ensure that the public funds are spent wisely by initiating sound planning. Currently, an appropriate approach in handling ethical issues especially during the pre-stage of project procurement has not yet been discovered in the literature review or in practice per

se. Therefore, it is expected that at the end of this research will assist the Malaysian government to take appropriate action to

overcome numerous loop-holes in the project procurement activities to ensure a more transparent and efficient system.

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